Chapter 4 explained at length how a multi-year perspective is important for good budgeting. It suggested methods that should be developed in every country to place, at least partly, the annual budget preparation process within such perspective (preparation of a macroeconomic framework completed with aggregate expenditure estimates and review of forward costs of programs). Special issues related to programming investment and aid-financed projects are reviewed in chapter 12.

Systems of “expenditure programming and forecasting” aim at developing more comprehensive and formal instruments to place the budget into a multi-year perspective. Forecasting is mere prediction of the future while planning implies the formulation of goal and tools. “Expenditure programming” should not be confused with developmental planning, which was widespread in developing countries in the 1970s, and is still performed in a number of Asian countries. “The distinction between a development plan and formal expenditure programming is that the former represents an organized outlook into the future taken at a particular time, while the latter is a continuous process of making a forecast and assessing its validity as further progress is made in its implementation”.

“As we shall see, a great deal of confusion has been generated by using the same terminology to refer to different approaches. Therefore, throughout this chapter we generally use the term "expenditure programming" in order to differentiate it from "development planning". Also, a clear distinction is needed between the general objective of introducing a multi-year perspective, and the specific variant of that objective which has been popularized recently as "medium-term expenditure framework" (MTEF). Accordingly, we will reserve the word "framework" for the full-fledged MTEF, and use instead the term "approach" whenever referring to any other variants of multi-year expenditure programming.”

Recently, the World Bank developed a "Medium-Term Expenditure Framework" (MTEF) approach. A number of developing and transition countries are currently implementing MTEFs, and preparing multi-year expenditure programs in this context.
This chapter reviews what is a multi-year (or forward) budget, the MTEF approach, and discusses the relevance of multi-year budgeting and expenditure programming instruments to developing and transition economies.

**A. MULTI-YEAR BUDGETING**

1. **What is a multi-year budget?**

A majority of industrialized countries prepare multi-year budgets, named depending on the country (rather than on differences in the approach, which do exist): “multi-year budget”, “forward budget”, “expenditure review”, “multi-year estimates”, “forward estimates”, etc. Sometimes, these expressions define broad expenditure policy frameworks or aggregate estimates. In this chapter, a “multi-year budget” (or “forward budget”) is defined as a document as detailed as the budget, or at least, showing relatively detailed forward estimates by spending agency and program. It differs, therefore, significantly from the aggregate estimates discussed in chapter 4, which should supplement the macroeconomic framework. The expression “Medium-Term Expenditure Framework” (MTEF) is becoming commonly used in developing countries and transition economies, to design some form of multi-year budget or more aggregate estimates. It is used, in this chapter, to describe the MTEF approach developed by the World Bank (see section B), not an instrument with a specified design.

Generally, multi-year budgets are rolled over every year. Every year policy changes are identified. If aggregate resources are greater than the costs of carrying out continuing policies, the excess resources are distributed according to expenditure priorities throughout the period covered by the framework. If, on the other hand, costs exceed resources, the lowest priority programs are cut in the same way. Of course, if aggregate resources and spending needs diverge significantly, revenues may have to adjust to the extent that this is possible. The planning period consists generally of three to five years.

Recently, the United Kingdom has implemented an outright three-year budget. Such instrument is quite different from a rolling budget. It does not fit the context of developing or transition countries, which should keep an annual budget, taking into account uncertainty in their economic environment. Implementing an outright three-year budget presents much more
difficulties and risks than a rolling forward budget, and will not be discussed further in this chapter.

Estimates of the first year of rolling multi-year budgets are fully consistent with the annual budget, while the outyears are generally indicative (for payments at least, multi-year commitments being based on the forward estimates in a number of countries – e.g. Italy and Australia). The role of a multi-year budget may differ significantly from one budget system to another. While in some developed countries multi-year budgeting has become an integral part of the formulation of the annual budget and is seen as a key instrument of expenditure control, in others the forward estimates provide only background to policy decision making.

Ideally, a multi-year budget shows: (i) the present level of expenditure; (ii) additional expenditure to provide the same service in future, for example, to maintain a pupil/teacher ratio in educational institutions; and (iii) additional expenditure, if the service is to be changed. Elements (i) and (ii) can be described as existing/continuing policy while (iii) can be defined as new policy. In reality, however, the distinctions between existing and new policies may be not clear and may be blurred depending on the nature of sector and the statistical data available. A base to define what is a new policy can be the level of service, policy changes representing an increased or decreased provision of services.

2. Problems met in past experiences

Multi-year budgeting was perceived in the 1970s mainly as an instrument for identifying new programs and allocating funds for them in future budgets. According to the OECD, two major problems were met in the 1970s and the 1980s, in the preparation of multi-year budgets: (i) the tendency to overestimate economic growth and resources available in the forecast period; and (ii) the tendency of spending agencies to view their forecasted expenditures as an entitlement. This makes subsequent downward revisions in expenditures difficult, even when it became clear that the economic assumptions were overoptimistic—which is frequently the case.

Until 1982, in the United Kingdom, multi-year expenditure programs were expressed in real terms rather than in nominal terms. When economic growth fell and inflation accelerated rapidly, the expenditure forecasts were adjusted automatically. This created further pressure on public finances. Cash limits were thus introduced for the annual budget in 1976, and were
operated in parallel with the expenditure programs using constant prices until 1982. From 1982, programming in real terms was abandoned and expenditure estimates were expressed in nominal prices to ensure consistency with budget (see box 38). The United Kingdom abandoned the expenditure forecast system altogether in 1995; and moved to a flat three-year budget in 1998.

The Australian government has been preparing forward estimates since 1973, but they were of little relevance to the annual budget preparation and little attention was given to the estimates for the next years. At the start of budget preparation, spending agencies were required to submit to the Ministry of Finance the estimates of expenditure levels required to finance the ongoing programs over the next three years. Although these estimates were not supposed to cover new programs or significant extensions of existing programs, in effect they became similar to the well-known wish lists. The different interpretations of what is a continuing policy and its corresponding costs produced time-consuming negotiations and disputes had to be brought to the Cabinet. As discussed below, from 1986, these problems were addressed.

The Policy and Expenditure Management System (PEMS) implemented in Canada in the early 1980s included the preparation of a five-year rolling fiscal program, with clearly defined spending limits and measures to reinforce the cohesion between policy decision making and budgeting. Under the PEMS, federal government expenditure programs were grouped into nine to ten “policy envelopes”, and four policy committees were established to manage them within the fiscal framework. The policy committees assessed new policy proposals in the light of both the government priorities and financial constraints defined by the policy envelope. The results have been disappointing. The Canadian PEMS succeeded in its mechanical and procedural aspects, but is generally regarded as a failure in promoting coherent policy choices within clear constraints.

One of the causes of the failure of the Canadian PEMS was the incorporation of a “programming reserve” in the multi-year estimates, which was intended as a contingency to meet unforeseen needs. Although a contingency reserve is appropriate in the face of future uncertainty (see section B.5 above), the ministers got the message that the government was willing to spend at levels above existing sectoral commitments and were thus encouraged to bring new spending proposals forward to their respective policy committees to try to get their share of the available funding. "The supporting bureaucratic work under PEMS became
transactional rather than allocational, driven by new spending proposals.\textsuperscript{11} The system of policy envelopes was eliminated in 1989 and henceforth the policy committees concentrated on policy issues rather than on the management of policy financial envelopes and public spending decisions.

In other countries, where forward estimates were background document to the budget, benefits are difficult to assess. In the USA, some form of forward estimates are prepared since the early 1960s and became a formal part of the budget process in 1979. The exercise proved to be ineffective for expenditure control in the 1980s. Possibly, improvements in multi-year budgeting techniques made in 1990 contributed partly to recent achievements.

In the few developing countries that prepare a forward budget in the 1970s or the early 1980s, results are uneven also. The National Public Expenditure Plan (NPEP) prepared in \textit{Papua New Guinea} during the late 1970s and early 1980s is seen to have been an effective instrument of macroeconomic policy, curbing the growth of expenditure, but in fact it has tended to be largely a year-to-year budget exercise. Two key weaknesses of the system were its overt linkages to political objectives (which of course changed) and the failure to establish sectoral programs that extended much beyond the annual budget.\textsuperscript{12}

The forward budget was introduced in \textit{Kenya} in 1973. However, despite a reinforcement of the forward budgeting process in 1985, expenditure cuts continued to be made in response to resource shortages without clear priorities. As a result the wage component of the budget was still increasing disproportionately and capital, maintenance and operating expenditures suffered. The expenditure ceilings set in the forward budgets effectively became a floor from which to negotiate higher budget provisions rather than a strict limit on expenditure.\textsuperscript{13} The forward budgeting system is currently a purely formal exercise. It is however, in the process of being strengthening.

Aside from the technical deficiencies in the expenditure programming system, the insufficient commitment of some governments to fiscal discipline explains why multi-year programming in the 1980s did not achieve its expected results, "the failure to act swiftly and decisively cannot be laid at the doorstep of the various decision-making systems."\textsuperscript{14} In 1992, a study for the European Union found that fiscal performance depends more on institutional
issues, such as the distribution of powers in budgeting, than on the application of long-term fiscal limits.  

3. Recent approaches in developed countries

a. Expenditure control objectives

From the mid-1980s, taking into account problems met in the past and need to keep expenditure under control objectives, multi-year budgeting systems shifted from an instrument for identifying new programs to an instrument for expenditure control, and allocation of resources. For example, William Allan identifies two main objectives for “expenditure programming and forecasting”:

- Providing better information on the medium-term costs of current expenditure policies and thereby giving greater scope to initiate changes in budget policy that will take more than one year to implement; and

- Revealing links between capital expenditures and future recurrent costs and thereby facilitating analysis of the impact of public investments on the budget over the medium-term.

“Various OECD governments reoriented their multi-year budgets from plans to projections and from instruments of programs expansion to constraints on future spending. It was reflected (in a number of countries) in rules dictating that the projections be based on unchanged policy, that is, that they merely estimate the future cost of existing programs.” Such forward estimates provide a baseline for starting work on the budget. Even where the forward budget is only a background document, this baseline can convey a powerful message: existing policies have already claimed nearly all (or all) future resources and that there is no margin for new spending schemes, provided that there is strong political commitment to keep expenditure under control.

International practices concerning MTEFs vary widely, even among developed countries. The table below summarizes expenditure programming practices in OECD. Almost half of the
countries have no multi-year budgeting as such; the remainder shows a mix of practices of varying duration.

<table>
<thead>
<tr>
<th>Practiced?</th>
<th>Period (years)</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Y 1 plus 3</td>
<td>Forward estimates</td>
</tr>
<tr>
<td>Austria</td>
<td>Y 1 plus 3</td>
<td>Medium-term budget estimate</td>
</tr>
<tr>
<td>Belgium</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>Y 1 plus 2</td>
<td>Multi-year operational programming system</td>
</tr>
<tr>
<td>Denmark</td>
<td>Y 1 plus 3</td>
<td>Multi-year estimates</td>
</tr>
<tr>
<td>Finland</td>
<td>Y 1 plus 3</td>
<td>Multi-year estimates and ceilings</td>
</tr>
<tr>
<td>France</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>Y 1 plus 3</td>
<td>Medium-term financial program</td>
</tr>
<tr>
<td>Greece</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>Ireland</td>
<td>N</td>
<td>(in course of adoption)</td>
</tr>
<tr>
<td>Italy</td>
<td>Y 1 plus 3</td>
<td>Multi-year estimates</td>
</tr>
<tr>
<td>Japan</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>Netherlands</td>
<td>Y 1 plus 4</td>
<td>Multi-year projections</td>
</tr>
<tr>
<td>New Zealand</td>
<td>N</td>
<td>3-year projections are available to ministers</td>
</tr>
<tr>
<td>Norway</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>Portugal</td>
<td>N</td>
<td>Only for investment and development expenditure</td>
</tr>
<tr>
<td>Spain</td>
<td>Y 1 plus 3</td>
<td>Multi-year programming of programs</td>
</tr>
<tr>
<td>Sweden</td>
<td>Y 1 plus 2</td>
<td>Multi-year estimates</td>
</tr>
<tr>
<td>Switzerland</td>
<td>Y 1 plus 2</td>
<td>Financial program</td>
</tr>
<tr>
<td>Turkey</td>
<td>N</td>
<td>5-year program</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>N 1 plus 2</td>
<td>Since the OECD publication in 1995, the U.K. has abandoned its Public Expenditure Survey temporarily</td>
</tr>
<tr>
<td>USA</td>
<td>Y 1 plus 4</td>
<td>Baseline projections of receipts, expenditures and the deficit</td>
</tr>
</tbody>
</table>


b. Highly Disciplined Approaches

Some developed countries (e.g. Australia and Scandinavian countries) have developed a highly disciplined and consistent approach for multi-year budgeting and ensuring proper linkage with the budget. In these countries, multi-year budgets are an effective instrument for expenditure control and allocation of resources. It is also an instrument for operational efficiency, through increased predictability and responsibilities of managers in preparing their programs under hard constraints.
For example, in Australia problems met earlier were addressed from 1986. Multi-year estimates were made public to expose the degree of fiscal discipline to which the Government was committed, and crucially, committed itself to no real growth in aggregate expenditure for the next four years. Then, multi-years estimates were integrated into the budget and increased responsibility was given to the Department of Finance in managing the multi-year estimates system. Annual budget preparation starts with updating of estimates of costs of ongoing programs, which give the margin of maneuver for incorporating new programs. Multi-year forward estimates are updated on technical grounds to take into account changes of various economic parameters such as inflation. Since Cabinet has already authorized the ongoing activities, they are not renegotiated during the following budget preparation process. This is a substantive administrative simplification, which also allows the proper focus and attention to be given to new policy proposals. The Ministry of Finance is responsible for managing forward estimates and has the full authority to decide on any adjustments requested by agency and whether implicit new policy is involved under the cloak of “on-going” activities\textsuperscript{19}.

4. A possible model of reference

Taking into account lessons drawn from some recent OECD countries’ experience, a disciplined and comprehensive forward budgeting system would have, ideally, the following features:

Preparation of forward estimates. Two “stages” are involved in the preparation of the forward budget. In the first, which is a “technical” stage (which we may call the “forecasting stage”) the medium-term expenditure implications of ongoing policies are projected. In the second stage (which we may call the “programming stage”), the cost implications of changes in policies (whether upward or downward expenditure adjustment) must-be added to the “technical” projections. Therefore, the process is organized as follows:

- Costs estimates of ongoing programs are prepared before the start of the annual budget preparation process (“forecasting stage”), thus indicating the available margin for new programs in the annual budget.

- As for the annual budget, a "top-down" approach is needed at the beginning of the process, establishing: (i) the level of savings required on existing programs; and (ii)
the financial envelopes allocated to finance new programs over the multi-year period. (Recall from chapter 4 that hard constraints must be given to each spending agency at the start of the budget process).

**Focusing on policy changes.** The previous year’s projections are updated by the "Ministry of Finance", but only to take into account changes in technical factors and in economic parameters. Since the government has approved the previous set of projections, budget preparation is free to focus on policy changes.

**Conservative approach.** The forward budget does not plan implementation of new policies beyond its first year. It may include a reserve for the cost of new policy in the outyears, but this should be conservatively estimated. This reserve should not create rights to commit expenditures and/or engage new policies, or must not exceed a very small percentage of the total estimates

**Coordinated processes.** The preparation of the forward budget is closely coordinated with these annual budget formulation processes, and the first year of the forward budget must be fully consistent with the budget. In fact, the preparation of forward budget and the budget must be merged into a single process. Forward budget prepared long before the annual budget can be a source of confusion or conflict between core agencies and spending agencies, when unexpected changes in macroeconomic environment lead to revising downward the expenditure estimates for the budget under preparation. Multi-year estimates prepared after the annual budget may provide useful information but cannot play a significant role in the budget process itself and are, in fact, only expenditure forecasts.

**Status of the forward budget.** Forward estimates do not create “rights” for spending agencies, but should ensure predictability and therefore should be based on conservative assumptions in order to avoid disruptive future changes in expenditure programs. However, they are an instrument for planning multi-year commitments. To commit the government the forward budget is published.

**Measures to increase operational efficiency.** To assure predictability, forward budgets should be as detailed as the budget, or at least by program and spending agencies. At the same time, providing indicative funding levels at agency or program level has the strong advantage of
encouraging agencies to adapt their programs to the expenditure ceilings. Ministries are free to reallocate their resources, but under the hard budget constraint.

*Strong role of the Ministry of Finance.* Central agencies (notably the Ministry of Finance) have a strong role in the process, from the preparation of annual ceilings to ensuring that fiscal targets and updates of annual costs of ongoing programs and costing of new programs are made on a sound technical basis. For the role of the forward estimates projections in budget preparation to be effective, the agency that coordinates the preparation of the forward budget should also be responsible for the preparation of the annual budget.

*Sound costs estimates.* Explicit and realistic sound cost estimates are required in order to include new programs.

Such approach is not systematically applied in developed countries. The multi-year budget remains in a number of countries only a background document. Developing such system has numerous implementation requirements, and cannot be a general recommendation for developing countries. However, this scheme shows in which direction a forward budgeting could be progressively implemented. It shows which elements are missing in forward budgeting systems attempted in some developing countries, which are generally more ambitious concerning the programming/planning aspects, but do not impose discipline in programming.

5. **Technical Issues**

a. *Design of the Instrument*

For sound forward budgeting political commitment is essential, however also the system must be properly designed. The format of a multi-year budget and its coverage are important to determine its function and depends on the objectives assigned to the multi-year budgeting.

The more crucial aspects are the following:

- *Coverage.* Schematically, three types of forward budgets can be distinguished: (i) multi-year budgets that include mere forecasts of ongoing programs; (ii) multi-year budgets that are an instrument for managing policy changes, but do not plan new
policies in their outyears; and (iii) forward budgets that plan new policies in their outyears.

- **Length of the period**, covered by the multi-year budget and the period over which new programs can be planned. In some countries, the period covered by the multi-year budget consists of two periods: a “programming period” that can include new programs is followed by a “forecast period” that shows only the forward costs of the project planned in the programming period (e.g., in the USA, in the 1980s, the planning horizon was three years within a forward budget of five years).

- **Format.** The format of multi-year programming instruments is an important design element. Discussions in this section refer generally to a multi-year budget presented under the same degree of detail as the budget, or by spending agency and program. However, preparing more aggregated expenditure estimates can be an initial step towards some form of multi-year budgeting (see section C).

- **Role and Status.** A multi-year budget can be a mere background document to the budget or an annex prepared on the basis of the budget, or an instrument through which policy decisions are made. It can be a document for information only or a technical document, or an official document submitted to the Cabinet and Parliament for approval.

These essential design aspects of multi-year programming instruments are discussed in section C, when reviewing implementation issues (section C focuses on developing countries, but these aspects are crucial for every country). Other important issues concern the “contingency reserve” and the base of prices discussed below.

**b. Contingencies**

Although a multi-year budget per se cannot compensate for general lack of predictability, there are ways to adapt the MTEF design to suit less predictable circumstances. A simple way is to reserve a part of aggregate expenditures for contingencies and to increase the contingency reserve for more distant years.
Two types of reserves can be distinguished: (i) technical contingencies to take into account change in the economic parameters (e.g. inflation rate) and implementation of programs (e.g. unexpected costs increase of a construction project); and (ii) policy reserves, for future new programs not yet defined explicitly in the multi-year budget. Depending on how they are define, policy reserves can either commit the government to allocate these resources (see Canada experience reviewed in section B) or be only an indicative forecast without any implication on future spending. The precise nature of a multi-year program (comprehensive expenditure plan or only estimates of ongoing policies) depends in a large part on the level of these policy reserves and on the role they play in the allocation of resources.

**Figure 14: Contingency reserves**

The figure shows a simple standard model for allowing contingencies. To make the simple model operational, there is a need to segregate existing and new policies and to cost them separately.

Obviously, the costs of existing policies vary with circumstances. For instance, the cost of free primary education cannot be determined without knowing its parameters and the numbers in the relevant age groups, participation rates and standards of provision. Therefore, the border between technical contingencies and policy contingencies may be difficult to
To avoid debates, technical contingencies must refer to a precise set of activities rather than to “policies”, which can be interpreted in different manner. An alternative approach is to treat the current level of costs as the cost of existing policies. Cost increases can then be traced to changes in the volume of inputs acquired and can be termed as the cost of new policies. This conforms to the rule of traditional budgeting, wherein new expenditures must be separately explained.

c. *Current versus constant prices*

In a country with high inflation, it may seem more sensible to prepare multi-year estimates in real rather than nominal terms. However, inflation higher than the initial target would then require additional cuts in expenditure in real terms but with multi-year estimates expressed in constant prices, spending agencies are better able to resist the additional real cuts required. Lessons drawn from the UK experience in the 1970s show that multi-year budgeting in an inflationary environment puts pressure on the budget. When the multi-year estimate is prepared in constant prices, the Ministry of Finance should define clear rules for updating the price projections. Conversely, estimates prepared in nominal terms give an added incentive for prudent management and then, indirectly, may contribute somewhat to a lower inflation rate. In any case, it is uncertain whether multi-year estimates can be useful in a country without a minimum fiscal discipline and where predictability is not ensured, as it is generally the case of high inflation countries.

**B. MEDIUM-TERM EXPENDITURE FRAMEWORK APPROACH**

The Public Expenditure Management Handbook of the World Bank defines a Medium Term expenditure Framework approach that aims at linking policy, planning and budgeting, while avoiding the negative outcomes of many past experiences in expenditure programming.

The handbook stresses the importance of institutional mechanisms to facilitate decision making. It notes, notably that beyond the technical aspects of the forward budgeting system discussed above, the lessons learned from the Australian experience are: “the key to adjustment is policy change (not funding change as had been the practice in the past and continues to be in most countries); a hard, top-down aggregate budget constraint plays an essential role; estimates are needed on the cost of government policies and programs beyond
the budget year; institutional mechanisms are needed at the center of the government to enable and demand that government reprioritize and reallocate resources based on priorities; and greater predictability of funding does contribute to improved operational performance.

The MTEF is defined “a whole-of-government strategic policy and expenditure framework within ministers and line ministers are provided with greater responsibility for resource allocation decisions and decisions use. The MTEF consists of a top-down resource envelope, a bottom-up estimation of the current and medium-term costs of existing policy and ultimately, the matching of these costs with available resources. The matching of costs should normally occur in the context of the annual budget process, which should focus on the need for policy change to reflect changing macroeconomic conditions as well as changes in strategic priorities of the government”. ²²

To be an appropriate framework for resources allocation, an MTEF should encompass all sectors and all categories of expenditure.

The objectives of an MTEF are to:

- Improve macroeconomic balance by developing a consistent and realistic resource framework;
- Improve the allocation of resources to strategic priorities between and within sectors;
- Increase commitment to predictability of both policy and funding so that ministries can play ahead and programs can be sustained;
- Provide line agencies with a hard constraint and increased autonomy, thereby increasing incentives for efficient and effective uses of funds.

Preparation and implementation of an MTEF take place through an integrated bottom-up/top-down strategic planning process, framed by a macroeconomic framework. Major features of the MTEF approach include: strategic sector reviews, development of expenditure framework and approval by the Cabinet of sector policies and envelopes.

Strategic sector reviews consist of three stages: (i) questioning what is the role of the government in the sector, agreeing on objectives, outputs and assessing activities what activities should be carried out to meet these objectives and delivering the outputs; (ii)
reviewing/developing agreed programs and subprograms; (iii) costing agreed programs. These sectors reviews should cover all activities and organizations in the sector and focus should be on overall expenditures.

The Ministry of Finance prepares a medium-term frame (three to five years) and must include clear statement on the following: broad objectives of policy and the role of the government in the economy; the need for discipline in macroeconomic management; targets for broad aggregates of public revenue and expenditure; procedures for setting and revising the expenditure framework; the responsibilities of key ministries.

Sectoral resources allocations are made on the basis of affordability and intersectoral priorities are approved by the main-making decision body in government (Cabinet). This is the more crucial step of the MTEF process. The political aspects of resource allocation makes it wise to reach agreement on the criteria applied to allocations (consider cost recovery, recurrent costs of investment projects, identify what activities should be phased out, etc.).

As noted, in the World Bank Handbook, the approach to building an MTEF will depend on the conditions in the particular country and “for either form of MTEF, development will take a number of years because the MTEF needs to encompass all expenditures”.23

The precise nature of the MTEFs that are implemented or in the process of being implemented varies from one country to another (set of procedures for strengthening a pre-existing multi-year budgeting system, multi-year budget including new programs in its outyears, aggregate expenditure estimates, etc.). Some countries put an emphasis on the development of a strategic sectoral approach, priority being given to sectors that deliver services to the Public. The disciplined forward budgeting system described in section A would fit an MTEF approach, but less demanding instruments also.

An important element in developing the MTEF approach, besides defining what is exactly the instrument (for example, multi-year budget or more aggregate expenditure estimates), is to assure an effective co-ordination with the budget processes. The sector review phase is not and should be not an open-ended phase. Hard constraints must frame these sector reviews. In some countries, it is projected to link the sector reviews and the budget preparation process through the preparation of “program profile forms” which describe by ministry the main
programs in the sector. These forms include (i) a brief narrative statement; (ii) some “performance indicators” by program; and (iii) projected expenditure over the programming period. Such forms can help scrutinizing the budget. To incite line ministries to prioritize their programs, initial envelopes should be communicated to line ministries before the preparation of the “program profile forms”. The process should be iterative, but time needed for sector review and sectoral planning should not lead to delay the notification of initial ceilings early in the process when preparing the budget or a forward budget, if any. Since the MTEF processes are rolling and to some extent permanent, this should not pose major problems, provided that an appropriate calendar is set up and fits recommendations made in chapter 4 for budget preparation.

The MTEF approach integrates within a multi-year framework the issues discussed in this volume (building hard constraints into budget, ensuring a strong budget-policy and development of a strategic overall and sectoral approach, increased commitment to predictability; and increased responsibilities of line ministries). By contrast, discussion in section C focuses on technical aspects of public expenditures programming instruments. However, the objectives of the MTEF approach described above must be kept in mind when implementing instruments for placing formally the budget into a multi-year framework.

C. IMPLEMENTING MULTI-YEAR EXPENDITURE PROGRAMMING

In some transition and developing countries, the development of an MTEF approach, or its first implementation stage, consists of the preparation of aggregate expenditure estimates by broad sector, the preparation of strategy papers and the development of sector expenditure program in few key sectors. Such approaches can contribute to effective improvements in budgeting and policy formulation.

However, in other countries, the implementation of an “MTEF” can turn to reviving old expenditure programming approaches under a new name. The “MTEF” is defined, in these countries, as a multi-year budget that includes new programs in its outyears. Despite the fact an MTEF approach cannot be mechanically implemented, there is little evidence of attempts in these developing countries to design their expenditure programming instrument from the start to suit country circumstances. Lessons from past experiences of the very country or other countries in expenditure programming have merely been taken into account. Rather, the
approach has been that of learning again on the job, and then adapting their instrument in the light of experience. A less expensive approach would be to do more rigorous analysis at the outset, and to create a product better adapted to individual circumstances.

As noted earlier, the feasibility of multi-year expenditure programming is greater when future circumstances are more predictable. In turn, other things being equal, future circumstances are more predictable if an economy is (i) larger and (ii) more developed, and least predictable for a small developing country. Yet, it is precisely in developing countries that the need for a multi-year perspective is greater, for it is there that resource allocation for development requires more frequent, and larger, changes. This dilemma suggests a building-block approach in developing countries. Government resolve and strict fiscal discipline are among the requirements for the success of this building-block approach to multi-year expenditure programming.

1. **Conditions for effective multi-year programming**

   Virtually every stabilization program supported by the International Monetary Fund contained a medium-term fiscal framework. However, processes and requirements for developing an expenditure programming exercise are quite different from those for preparing macroeconomic projections or aggregated expenditure estimates. It is often noted that developing countries environment makes “very difficult to promote medium-term expenditure programming as a feasible means of improving budgeting…programs of technical assistance to help achieve improvements have a mixed record”. Political, statistical and administrative conditions must be favorable to make them an effective tool for expenditure programming and budgeting.

   a. **A modicum of stability**

   Medium-term expenditure programming is hard to implement in unstable economic conditions. Some agree that multi-year programming can itself be a means of increasing the stability of expenditures. Caiden and Wildavsky, however, do emphasize that stability makes multi-year budgeting easier; but reject the converse proposition that planning can create greater certainty for countries subject to fundamental instability. “An essential paradox of programming is that it is expected to create the conditions for its own success.”
Countries that face an unstable economic environment need imperatively (even more than other countries) sound macroeconomic works, assessment of the fiscal sustainability and vulnerability, and estimates of the forward costs of their programs. However, they should avoid policy commitments that will not be met in the future, in case of adverse economic development.

As discussed in chapter 4, adequate systems for revenue forecasting are necessary conditions for sound budgeting. They are required for multi-year expenditure programming also. But, in country facing uncertainty preparing medium-term revenue forecasts is obviously more difficult. In countries where revenues depend highly on commodities prices, an expenditure plan that seems realistic can turn out to be unrealistic, few months after it has been prepared. Forward budgeting requires in these countries an excellent fiscal discipline.

b. Good information

Multi-year expenditure programming requires reliable macroeconomic projections, linked to fiscal targets that are affordable in aggregate, and thus good forecasts of future resources. As discussed earlier, separating new policies or policy changes from continuing policies require both technical capacities in analyzing programs and disciplined policy decision making.

Other information needed is on the detailed pattern of expenditure over a period of time, which implies a satisfactory budget classification and accurate and timely accounting. All of these matters are discussed at length elsewhere in this volume.

c. Budgetary discipline

As repeatedly stressed, the annual budget by itself is a poor mechanism for shifting resources from lower to higher priority uses. The normal tendency is to spread resources across-the-board via a series of incremental adjustments, rather than to shift resources in relation to major changes in policies. As discussed in chapter 4, to avoid a pure incremental approach the budget must be placed into a multi-year perspective. A multi-year expenditure program can provide a formal mechanism for aligning budgets with policies. However, when lack of budgetary discipline causes large deviations between what is budgeted and what is spent, the usefulness of multi-year programming is in doubt. To illustrate, if it takes three years
to reduce military expenditure by 25%, while in the execution of each annual budget military expenditure exceeds the budgeted amount, the medium-term budget is made irrelevant.

d. Institutional support

Ideally, a forward budget should be the main instrument through which resources are allocated. However, in a majority of countries, it is doubtful that political decision-makers will accept such approach.

Participants must not be allowed to subvert the budget process via significant game playing. Evasion strategies are often developed when preparing the annual budget. Multi-year expenditure programming can have the advantage to impose reviews of the forward fiscal impact of current policy decisions, and, therefore limit some of these evasion strategies. However, a multi-year expenditure program can be also an excuse to developing evasion strategies, by pushing expenditure off to the outyears. It will lead, in such conditions, to claims for increased expenditures from line ministries, since new programs are easily transformed into “entitlements” as soon as they are included in the projections.

Medium-term expenditure programming is vulnerable to several problems: the mystique of the measurable (the measurable is treated as more important than the non-measurable, see chapter 4); the tyranny of formal systems (formal systems and processes are treated as more important than informal processes); rewarding the best presenters (good budget presentation is seen as an end in itself, which may cause real problems if medium-term expenditure programming is introduced on a selective basis for some programs, but not for others); and lack of objectivity if those who design and control the process use it as a vehicle for achieving a reordering of expenditure which they themselves favor.

2. Tailoring multi-year programming instruments

The budget literature contains cautionary tales regarding the implementation of template budgeting systems (such as PPBS, ZBB, etc. discussed in chapter 3). The concepts were oversold at inception, and later became discredited when it became obvious that they could not deliver on their promises. Therefore, before carrying out a multi-year budgeting exercise, an
objective critical appraisal is required. Convincing answers must be given to the following questions:

- Is the country ready for such exercise in the sense of having adequate supporting processes: effective system for revenue forecasting; procedures for estimating the forward costs of programs and assessing their soundness; adequate co-ordination mechanisms for budget preparation, including systematic joint review of the capital and current components of the budget; good budget discipline; etc?

- If supporting processes are working effectively, what is the more cost-effective? approach; what could be the best mix of actions to meet the objectives in public expenditure management discussed in chapter 1?

- If the supporting processes are not working adequately, what are the priority actions? Should they be carried out before some partial approaches in multi-year expenditure programming or are they perquisite?

Every country should improve its budget system with a view of meeting the three major objectives described in chapter 1 (fiscal discipline and aggregate expenditure control; allocative efficiency; and operational efficiency). These objectives are inter-linked. However, the role in meeting these objectives that can play a particular reform or instrument depends of the country context and on the instrument. For example, in countries that make cash-budgeting, systematic sequestering, where the MOF interferes excessively in line ministries’ budget management, etc., the priority actions to increase predictability and operational efficiency are not forward budgeting. This can have an incidence on the design of the instrument multi-year programming instruments, since it would be illusory to expect from them increased predictability, before other reforms of the budget system.

a. Aggregate or Detailed Estimates?

The objective of predictability requires to detail appropriately multi-year expenditure programs by program, projects and spending units. However, this may conflict with the objective of fiscal discipline. A more aggregate presentation is not only cost-effective but also prevents agencies from claiming “ownership” over future funding levels in case of downward revisions.
Therefore, a progressive approach could be to limit the exercise, in a first step, to the preparation of aggregate expenditure estimates (as suggested in chapter 4). Preparing aggregate estimates should not lead to abandon specific programming exercise and the review of crucial issues. Forward estimates for a broad program must be supported by adequate information. Otherwise, there could be a mean to hidden a white elephant under preparation or plans to increasing recruitment in a country with an already over-staffed civil service.

Aggregate estimates can be progressively detailed, along with other improvements in the budget and decision-making systems. Directions in detailing progressively these aggregate expenditure estimates depend on the country context. In countries that face arrears on wages or other crucial expenditure items, the expenditure program should clearly indicate the arrears targets/ceilings in these areas in order to lead spending agencies to identify the measures required to settle them. Other countries may need to develop first multi-year programs with a partial coverage (see section d below).

b. Planning new programs?

To ensure a strong link between policy formulation and expenditure programming, it could be seen that a multi-year program should cover all intended programs over the planning period. It would include, besides programs of the annual budget, new programs in its outyears. Such approach allows shifts in the composition of the expenditure program to be identified and facilitates dialogue with donors.

As discussed in chapter 4, however, frequent major weakness in budgeting is the “need” approach, which leads to expenditure programs that do not fit financial constraints, lack of adequate linkages between policy formulation and expenditure programming, excessive bargaining and the development of evasion strategy. These problems are aggravated when preparing multi-year programs, since planning beyond the budget year is seen as less compelling than annual budgeting, and the temptation to prepare wish lists instead of sound requests is simpler. Multi-year expenditure programming becomes an easy, but dangerous, exercise. In countries with poor fiscal discipline or weak government coordination, framing forward budgets by a macroeconomic framework is far from being sufficient to avoid these undesirable outcomes. Initial experience of some OECD countries reviewed in section B shows that such problems may happen also in developed countries. The main risk in implementing a
forward budget is the fact that it could be seen as only a five-year development plan, rather than a system for expenditure programming under hard budget constraints.

Focusing on immediate decisions, instead of adopting a full-fledged forward budgeting approach limit risks of perverse effects. Besides ongoing programs, the multi-year budget would include only the new programs of the annual budget and, for aid-dependent countries, programs for which an external financing is available. The difference between the revenue forecasts and the total annual costs of these programs should not be allocated. It could be shown in the programming documents, but only as a purely indicative reserve. To a large extent, this approach is similar to the approach adopted by OECD countries that focus on “continuing policies” when preparing multi-year estimates. It is also similar to the stringent PIP approach considered in chapter 12 for aid dependent countries.

It is certain, however, that such stringent approach may be difficult to implement in the developing countries context. The term “continuing policies”, often adopted by developed countries, can lead to bargaining. The term ongoing programs/projects is therefore preferable. More worrying, there is in developing countries a general tendency to give the greater place to planning future decisions, rather than reviewing first the future impact of decisions taken when preparing the annual budget. This is partly due to the traditional planning approach, but also to the donors, which require list of projects and future policy orientations to satisfy their own agenda.

In any case, even if this stringent approach cannot be adopted, multi-year estimates must be established on conservative assumptions in order to avoid future disruptive changes. The multi-year programming exercise would not be credible if the estimates prepared the previous year need constant downward revision when preparing the annual budget. In practice, expenditure estimates should be equal to the budget forecasts for the first year of the forward budget; and lower than to the level of expenditures projected in the macroeconomic scenario for the outyears.

c. **Length of the planning period**
"In expenditure programming as in any other field, there is a basic trade-off between certainty and relevance. Economic measures are more specific and implementable the shorter the period which they cover, but more relevant the longer the period covered. For example, a weekly budget would be pretty certain but next to useless as a policy instrument, while a 10-year budget would be highly relevant for policy change but entirely uncertain. Hence, other things being equal, the feasibility of a multi-year expenditure approach is directly related to the predictability of future circumstances."

The length of the period over which new programs are planned, is a significant design feature of expenditure programming instrument. In principle, it should be shorter in countries facing major uncertainties. In expenditure programming as in any other field, there is a basic trade-off between certainty and relevance. Economic measures are more specific and implementable the shorter the period which they cover, but more relevant the longer the period covered. For example, a weekly budget would be pretty certain but next to useless as a policy instrument, while a 10-year budget would be highly relevant for policy change but entirely uncertain. Generally, multi-year expenditure programs cover three to four years. Uncertainty could suggest limiting the first step in multi-year budgeting exercise to two years only.

However, a two-year period is too limited for making meaningful assessment of the policy directions and related adjustments, and to assess recurrent costs of investment. Also, developing countries needs also a longer to prepare decisions on aid financed projects, taking into time needed for project preparation, negotiation and procurement.

To reconcile these two opposite requirements, countries that face unstable economic environment should make a clear distinction between the “programming period” over which new programs and policy decisions are planned, and the “forecasting period” that merely shows the forward costs of programs. They could, for example, have a multi-year program where the first year (or the first two years) include new programs (“programming period”), while the outyears would show merely the forward costs of programs (“forecasting period”). The term “new/ongoing” programs should be in such cases interpreted in a restrictive sense (rather as “continuing policy”). In aid-dependent countries, however, the programming period need to be longer than one or two years for aid-financed projects. This special issue is discussed in chapter 12 (“stringent” investment programming approach).
Also, the expenditure programming activities should not be confined to the production of forward budget estimates. For technical purposes, more long-term forecasting may be also needed, for example to assess the impact of the debt or pension policy. In some sectors, the crucial issue of recurrent cost of investments may need special studies in some sectors. The fiscal of an investment program is generally more significant beyond the end-of-period of a forward budget than over the period (for example, taking into account periodic maintenance the more significant fiscal impact of a program of road construction program intervenes only several years after its completion). A variety of programming and forecasting documents are required for budgeting and policy formulation, although they should have the official status of the budget.

d. Partial coverage?

A number of countries prepare multi-year expenditure programs that concern only some sectors or subsectors or some category of expenditures, such as PIP, Sector Investment Program, Sector Expenditure Programs, Special Program Laws, etc.

These approaches do not allow trade-offs among sectors or categories of expenditures to be made in a consistent manner. “Partial” multi-year expenditure programs impede fiscal discipline, when a macroeconomic framework does not strictly frame them. Public Expenditure Programs (PEP) or Sector Investment Programs (SIP) are prepared in several developing countries. Often, these sector programs show the “needs” of line ministries for both recurrent and investment expenditure, framed by the budget constraint for the first year, but often without clear financial constraints for the following years. They can be used by line ministries for sector policy formulation, or to bargain with the Ministry of Finance, or to discuss with donors, but are insufficient to ensure consistency between policy and fiscal targets. Of course, aggregating such sectoral programs yield a “program” of little value beyond the current year. Similar comments are made in chapter 12 on the wish lists of investment projects prepared for donors’ meetings in a number of developing countries.

Expenditure programs that cover all categories of expenditures are often opposed to programs that cover only investment (such as the PIP described in chapter 12). This opposition is relevant if the debate concerns mechanisms for policy formulation. Strategic allocation of resources cannot be confined to the review of an investment program. However, on a technical
point view, when assessing the forward fiscal impact of ongoing programs, a particular attention on investment projects is required, since these projects are generally of multi-year nature. Moreover, in aid dependent country special attention on domestic counterpart of project financed by external sources is also required. A sound macroeconomic framework, completed with aggregate expenditure estimates is needed to frame a PIP. On the other hand, however aggregate expenditure estimates should be completed by an investment programming document, which should show at least forward costs of projects of a significant size.

Partial multi-year programs present the advantage to focus on the areas in which multi-year programming is the more crucially needed. Often countries that prepare a multi-year program divert their attention towards bargaining minor projects, while programs of significant amount are only roughly estimated and not debated (especially when they are “political”). In such situations, it would be better to focus on areas where multi-year expenditure programming is the more crucial. Detailed forward budgets, or PIP, with hundreds of projects are often ineffective tools for making policy choices. Priority areas for detailed multi-year expenditure programming depend on each country context and policy priorities. For example, it is generally more important to prepare a multi-year program for road construction and maintenance than for an administrative ministry. As noted earlier, in aid-dependent countries, programming projects financed by external aid is crucial. Countries that must downsize significantly their civil service may need to focus first on personnel expenditure plans, etc.

Partial multi-year programs can be, therefore, useful for budgeting and decision-making. However, as stressed repeatedly in this volume, to identify broad policy directions, avoid fragmentation in expenditure programming, and unconsidered promises, a macroeconomic framework, completed with aggregated expenditure estimates by broad function, must imperatively frame them.

e. Presentation of multi-year programs

As discussed, in chapter 3, the budget should be presented along accountability and responsibility lines. The same recommendations apply to multi-year programs. Aggregate estimates are often only by broad function or sector. However, if they are in a second stage detailed this should be done by ministry and agency. The preparation of sector review or strategic planning is an important component of the MTEF approach. The sectoral programs
must be properly defined. Presenting programs by sector, preparing programs profile forms, etc. can improve sector budget and multi-year program formulation. However, it should not drift towards a program-budgeting exercise, in the sense of those unsuccessfully attempted in the 60s that attempted to surpass administrative and responsibility arrangements (see discussion in chapter 3).

f. Status of the instrument

To be an effective instrument for policy decision making, ideally a multi-year expenditure program should be a public document and, preferably, presented to Parliament with the budget. Making explicit and publishing expenditure commitments is important for accountability and predictability.

However, committing the government on the basis of estimates roughly prepared would hamper fiscal objectives. In practice, the status and the role of a multi-year expenditure programming document must depend on its quality. Therefore, in a number of developing countries, the first step should be to prepare an internal multi-year programming document, for information only. Such documents have limited objectives, but can contribute to developing progressively a multi-year programming approach.

3. Implementing multi-year budgets: Some illustrations

Developing comprehensive multi-year budgets can be when circumstances and capabilities permit an effective approach. When this is not the case, this would be a waste of time and resources, and might distract attention from the immediate needs for improving the annual budget process. Boxes 33, 34, 35, and 36, show different experiences in different countries, in implementing multi-year budgets, sometimes named “MTEF”, although it is far from being evident they have all adopted the MTEF approach described in section B above.

D. KEY POINTS AND DIRECTIONS OF REFORM
1. Key points

A number of countries prepare rolling multi-year budgets since the 1960s. The initial aim of multi-year budgeting was to provide a framework within which new programs and policies will be identified and programmed. Uneven results and need to strengthen expenditure control led to focus multi-year budgets on continuing policies and immediate policy changes, and avoid to plan new policies for the future. In some developed countries, multi-year budgeting aim merely at giving a baseline for the budget. This baseline shows what are the current constraints over a multi-year period. In other countries, multi-year budgeting and annual budgeting has a higher degree of integration. The multi-year budgeting processes frame effectively decision-making and allows budget preparation to focus on policy changes.

Multi-year budgets must be imperatively framed by a macroeconomic framework. Their preparation should be similar to the preparation of the budget and consist a combination of a top-down and bottom-up approaches, under hard financial constraints (see chapter 4). Under such conditions a multi-year budget can be an effective instrument for policy formulation and allocation of resources. It allows systematic reviews of the forward impact of policy decisions and supervision of their implementation over a multi-year period. It provides an adequate and formal framework to place the budget into a multi-year perspective, which must be done in any case (see chapter 4). Highly disciplined multi-year budgeting processes can contribute to increase predictability and, therefore, operational efficiency.

Recently the World Bank developed an MTEF approach that aims at assuring better fiscal discipline; strategic allocation of resources, through development of strategic planning both at the whole government and sector level; and operational efficiency, through increased predictability and increased responsibilities of line ministries.

In many developing and transition economies, uncertainty and lack of stability, insufficiently disciplined decision-making process, and insufficiencies in technical supporting processes make difficult multi-year expenditure programming.

Multi-year programming approaches must be tailored according to the country context. This can consist of limiting the length of the “programming period” that includes new programs and projects; developing aggregate expenditure estimates and detailing them progressively; and
developing aggregate estimates and partial programs (sector program in priority areas, investment program, etc.).

2. Directions in Reform

a. Minimum Requirements

At least, every country should project the forward costs of the major categories of expenditure and frame the budget by a realistic macroeconomic framework that allows major policy choices to be identified (see chapter 4). No new large initiative should be considered for funding when its future framework implications are not realistically assessed.

b. Further Steps

Concerning further steps, as a general requirement:

- The planning nature of the multi-year documents must be clearly and appropriately specified. Every country should focus on continuing policy and immediate policy changes to be decided within the annual budget process. It is not recommended to plan new policies in the outyears of a multi-year expenditure program.

- Every multi-year expenditure program, whatever its characteristics must be framed by a macroeconomic framework.

To tailor multi-year expenditure programming to country context, the following features of the programming instruments must be carefully designed:

- Format. A proper degree of detail in the presentation of the multi-year estimates is needed if the objective is to increase predictability, but detailed forward estimates can generate increased claims from spending agencies. Countries with limited technical capacities and/or with poor fiscal discipline should consider implementing (i) aggregate expenditure estimates; and (ii) detailed partial multi-year programs for only priority areas.
• **Length of the programming period.** It is important to show forward costs of ongoing programs over a several-year period, but countries with insufficient fiscal discipline or facing uncertainties should avoid programming new projects/programs in the outyears of their expenditure programs, even when these new programs correspond to ongoing policies. However, some exceptions may be needed notably for the treatment of aid-financed projects (see chapter 12).

• **Partial programs** focusing on priority sector or areas (e.g. investment) can be a cost-effective approach. Their scope depends on the country. Expenditure programs with partial coverage must be imperatively framed by aggregate expenditure estimates.

• Detailed multi-year expenditure programs must be presented along accountability and responsibility lines.

• **Status of the instrument.** Making explicit and publishing expenditure commitments is important for accountability and predictability, but committing the government on the basis of estimates roughly prepared could hamper fiscal objectives. If its quality is still not assured, the expenditure programming document should be seen as a working document.

Countries where conditions are conducive (stable macroeconomic environment, good fiscal discipline and technical capacities) may consider implementing, either progressively through the development of partial instruments, or immediately a comprehensive forward budgeting. This forward budgeting system and the annual budget system should be fully coordinated.
Following a World Bank report in 1996 calling for improved fiscal management, the government of Mozambique prepared a reform program (Republica de Moçambique, 1997) which sets out a comprehensive program for expenditure management reform, including a MTEF. The strategy consists of improvements in several key processes: the budget law, budget classification and coverage, accounting and monitoring, cash management, debt management and auditing. As part of this strategy, a budget framework law was recently passed and a new system of budget classification was introduced. Much remains to be done, however, if public finance systems are to perform adequately because the starting point for reform is too basic: single-entry accounts (often handwritten); a proliferation of bank accounts for conducting government business; severe problems of cash flow; disregard of the budget calendar; extreme reliance on donor funding (most of which escapes budget disciplines); strictly segregated procedures (including budgeting and accounting) for recurrent and investment expenditures; and weak controls.

Having recently emerged from a long civil war, the country requires considerable fiscal adjustment, and even with debt relief, the budget deficit needs to be further reduced at a time when donor funding is decreasing. An MTEF is an attractive proposition, but potential problems could ensue because of lack of supporting systems particularly in the field of human resources. There is a severe lack of skilled staff needed for budgetary reforms. Problems include lack of basic skills, lack of staff with higher qualifications, loss of staff to the private sector, immense salary differentials between the public and private sectors, and moonlighting to supplement inadequate wages. The Ministry of Finance and Programming is said to be one of the weaker agencies in terms of skills.

Nevertheless, the government is introducing a rolling five-year MTEF starting with the preparation of the 1999 budget. The challenges now are to link the sectoral work with macroeconomic realities (defining the aggregate resources available) and to ensure that the 1999 budget is prepared within the MTEF framework (defining sectoral allocations and seeing that they are observed).

Clearly, the basic building blocks for an MTEF are not yet in place. The sentiment that “Mozambique has the advantage of not yet starting some of the reforms that other countries have implemented and can benefit from their experience” needs to be balanced against the difficulty of making MTEF work in the present situation. The timetable for effective adoption will stretch to several years and given the weaknesses in budget and related systems, it might be more realistic to adopt a less demanding MTEF, one that is carefully designed to fit the present need of Mozambique. In the meantime, a five-year MTEF could be too ambitious, especially in view of the lack of real meaning attached to two- and three-year expenditure figures in far more predictable environment.
The Budget Speech for 1998 announced the adoption of a Medium-Term Expenditure Framework (MTEF), which was described as “the operational program by which we give substance to our reconstruction and development efforts”. Its goals are as follows: (i) to strengthen the political decision-making in the budget process; (ii) to enable the Cabinet to link budget allocations and services; (iii) to strengthen cooperative governance and decision making; (iv) to deliver better services; (v) to create a medium-term environment for public sector programming; and (vi) to achieve greater transparency and openness in budget policy making.

The MTEF is a three-year rolling process in which expenditures are expressed at estimated current prices. It applies to both national and provincial government and reflects government’s social and economic priorities and the country’s reconstruction and development commitments. Its adoption is expected to effectively allocate resources to priority areas and will lead to a more efficient programming and management of resources. It serves as a framework within which policy proposals can be assessed, promotes transparency in government, and reduces rollovers (expenditure commitments from previous years).

The MTEF of South Africa is comprehensive and contains all the necessary components for a successful implementation: a macroeconomic framework, a fiscal policy, medium-term expenditure forecasts for three years, an annual budget process linked to the MTEF, and draft sectoral programs. The components are linked to one another and there is strong political support for the entire process. The MTEF is still at an early stage of development but much has already been achieved. Significant work has been done in sectoral programs with the establishment of sectoral teams in August 1997.

The South African version of MTEF has additional links designed to increase its relevance and chances of success. First, it focuses on fiscal decentralization, translation of policy goals into service delivery, increased efficiency and transparency, and partnership between the public and private sectors. Second, budget reform is dependent on financial management, which receives specific incremental funding under the MTEF program. Third, the extent, cost and conditions of public sector employment are seen as significant issues within the MTEF program. The program specifically addresses personnel management, public service regulations, budgeting for personnel costs and decentralization of personnel decision making. This establishes a strong link between expenditure management and personnel issues, which is quite rare in public sector reform programs. This version deserves to succeed because it has been well conceived and programmed and addresses the right questions. Its chances of success are enhanced by strong government commitment and, if pursued with energy and determination, MTEF in South Africa has all the chances of achieving its central aims.
Tanzania’s four-year rolling program and forward budget (RPFB) has been a disappointment. Its status in late 1997 was unclear: the analytical work was done for the three-year period to 1998/99 but not published, and it is not known whether RPFB will continue. Budget administration has been dominated by day-to-day issues of cash management, reinforcing skepticism concerning the feasibility of medium-term expenditure programming.

The World Bank (1997b) refers to the following problems in Tanzania: “Expenditures under the RPBF have always departed from the projected path and projections for the forward years have not been taken seriously. Although line ministries have prepared and presented combined submissions for their recurrent and development estimates, recurrent and development submissions have in practice been reviewed separately by Finance and Programming. A large proportion of aid flows has not been properly reported in the government budget and accounts. There are several reasons why the RPFB has so far failed to make the concept of a medium-term expenditure framework fully operational. Budget projections were over optimistic, thus evading the problem of attaining a realistic initial budget. The government’s political commitment to the budget figures it announced was weak; thus there were frequently large reallocations early in the budget year. General expenditure discipline was poor, and budgets were also thrown off by expenditure arrears carried forward. The weaknesses in estimating, monitoring and accounting were another source of uncertainties” (page 71). Elsewhere in the report the World Bank notes “the RPFB exercises have been diluted by rapid departure from the main macroeconomic assumptions in the program. It is not evident whether the proposed macroeconomic framework was in fact consistent with maintenance of macroeconomic stability” (page 74). “The development budget accounts for a small fraction (10 percent) of the recorded budget and an even smaller proportion of actual disbursements” (page 75). “The number of projects is unmanageably large; projects are severely under-funded” (page 76); and “a comprehensive sector-wide view of requirements is inhibited by the fragmentation of expenditure programming between recurrent and development budgets” (page 79). “RPFB has tended to be crowded out by urgency of annual budget preparation and even annual expenditure projections have been quickly derailed by lack of discipline and failure to anticipate and control commitments effectively” (page 81).

In addition, the same report takes note of the following: as much as 80% of donor funding has not been recorded in the budget; ministries have been incurring significant expenditure commitments outside budget limits and consequently carrying forward large payment arrears; there is a high level of within-year deviation from budgets; only a fraction of the development budget is released during the budget year; spending agencies have weak supervisory controls and no disciplinary action for overspending; Exchequer Account reconciliation suffers from a two-year backlog and the consequent absence of final accounts.

Despite these reported failures, public expenditure reviews carried out by the World Bank in 1989 and 1994 still favorably recommended the RPFB approach. The World Bank’s latest review concludes: “The principles and objectives of the RPFB approach remain appropriate. Given the present government’s seriousness of purpose, the RPFB if suitably modified, can still be an effective instrument” (page 71). Comparing this situation with the conditions that would favor successful introduction of an MTEF, as listed in annex 3, the likelihood of a successful MTEF for Tanzania is indeed very low.
Learning from qualified success: The Public Expenditure Survey in the United Kingdom

This note reviews some of the difficulties faced by the UK Public Expenditure Survey (PES) in the early years of its 34-year life and discusses the measures that were adopted to overcome those difficulties.

The PES started in 1963 as a forward survey of public expenditure covering five years (the budget year and four further years) and was expressed in constant prices. In the mid-seventies, the U.K. economy had to adjust to the shock of sharply increased oil prices. With a depressed economy, its five-year public expenditure outlook in constant terms was no longer appropriate. Public expenditure was rising faster than national income. Economic pain was being shared unequally, with the public sector escaping scot-free. Inevitably, actual expenditures diverged from their programmed path and the irrelevance of PES figures became evident. The Select Committee on Expenditure at that time concluded that, “the Treasury’s present methods of controlling public expenditure are inadequate in the sense that money can be spent on a scale not contemplated when the relevant policies were decided upon” In short, the five-year program bore very little relation to what was being spent.

A fundamental review revealed several weaknesses. An increased stability for public spending had proved largely illusory because public expenditures could not be insulated from short-term economic management. The constant price basis implied unaffordable levels of public expenditures during economic recession and undesirable growth at other times. In addition, it made it very difficult to reconcile PES figures with the annual budget. The five-year program was too long because expenditure figures for the last two years became unreliable and therefore largely irrelevant. The Treasury lacked reliable statistics and so was unable to closely monitor actual expenditures against programs. PES accounts became inadequate as control tools, in that they could not be used to make departmental spending conform to Treasury wishes.

At this point, PES could neither accurately program, nor adequately control public expenditure and this called for immediate remedial actions. From 1975 onward, the Treasury’s procedures for collecting, updating and reviewing financial information were reviewed and a Financial Information System was designed, developed, and installed. Cash limits were introduced in 1976 and the constant-price basis of PES was abandoned in 1982. The duration of PES was progressively reduced from five to three years. The revised PES made extensive use of cash programming, enabling better control of aggregate public expenditure, better links between PES and annual budgets, an improved framework for managing public sector costs, and a lever for exacting efficiency gains from spending departments.

The U.K. experience serves as a relevant guide to achieving realistic expectations. The success of forward budgeting starts with the recognition of problems and how adjustments are made to be able to overcome them. The PES was hailed in 1973 as having reached full maturity, and as being “the most important innovation in its field in any Western nation”.

* Thain and Wright, p.43.
For a broader discussion of expenditure programming and forecasting, see Premchand, 1983 (chapter 7 “Expenditure Programming and Forecasting”) and William Allan “Public Expenditure Programming and Forecasting” in Caiden, 1996.

Premchand, 1983.


In 1995, OECD listed Australia, Austria, Canada, Denmark, Finland, Germany, Italy, Netherlands, New Zealand, Spain, Sweden, United Kingdom, USA (OECD, 1995).


The difficult experience of the United Kingdom in the wake of the 1973 oil crisis is relevant. See Thain and Wright, 1995. Chapter 15 explains a similar trade-off for accountability, whereby accountability for performance can be either strict but narrow, or broad but loose. Chapter 15 explains a similar trade-off for accountability, whereby accountability for performance can be either strict but narrow, or broad but loose. Hence, the feasibility of a multi-year expenditure programming approach is directly related to the predictability of future circumstances. E.g. Cameroon, Madagascar, etc.